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6-1-1972

Taxation

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Recommended Citation

M. J. Langer and J. P. Corrigan Jr., *Taxation*, 4 U. Miami Inter-Am. L. Rev. 324 (1972)
Available at: <http://repository.law.miami.edu/umialr/vol4/iss2/9>

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TAXATION

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NOTE

Beginning with this issue the report on Taxation will be divided into two parts. The report on Caribbean taxation will be prepared by Marshall J. Langer. The other part of the report will be prepared by John P. Corrigan, Jr.

CARIBBEAN REPORT

Publications Available

The Practising Law Institute (PLI) held programs on Doing Business in the Caribbean at San Juan, Puerto Rico and New York City in February and March, 1972. The 218 page course handbook containing speakers' outlines and other materials is available for \$20 from PLI, 1133 Avenue of the Americas, New York, N. Y. 10036.

A portion of the 1972 *Survey of Caribbean Taxation* by Marshall J. Langer appears in this issue of *Lawyer of the Americas*. The entire survey consists of 73 pages and contains a country-by-country review of each of the 18 Commonwealth Caribbean jurisdictions and a selected bibliography. Copies are available at \$5 each from the publisher, Manacon Services Ltd., 400 City National Bank Building, Miami, Florida 33130.

BELIZE (BRITISH HONDURAS)

Tax Incentives

A recent amendment eliminates withholding tax with respect to interest on loans to specified development industries or projects, provided the interest is not taxable in the payee's country.

BRITISH VIRGIN ISLANDS

Proposed New Double Tax Agreement

The old double tax agreement between the British Virgin Islands and the United Kingdom was terminated by the United Kingdom in 1971, perhaps because the British Government felt that the 12% British Virgin Islands income tax rate was too low. It has now been reported that a proposed new double tax agreement between the British Virgin Islands and the United Kingdom has been basically agreed upon.

DOMINICAN REPUBLIC

Tax Incentives

The Dominican Republic has enacted an important new law regarding promotion and incentives for tourism development (Law No. 153 of June 4, 1971). It provides for 100% exemption from income tax for 10 years or more for hotels and other qualified tourist installations.

Anyone interested in investing in the Dominican Republic should read the article entitled *Automatism v. Discretion: The Industrial Investment Incentive Law of the Dominican Republic* by Jonathan Russin and Ronald L. Brown, which appears at 3 *Law and Policy in International Business* 366-387 (1971).

GUYANA

Tax Rates

The effective rate on earnings of a foreign-owned commercial company which are not reinvested in Guyana is about 73%. The corresponding rate on a foreign-owned non-commercial manufacturing company is about 64%. These amounts include withholding on dividends.

Capital gains in Guyana are now taxed at 20%.

HAITI

Proposed New Tax Haven

Efforts are being made to turn the island of Tortuga off the coast of Haiti into a new tourist and tax haven. An article on the subject appeared in *The Wall Street Journal*, Tuesday, December 11, 1971, accord-

ing to which Tortuga is exempt from personal and corporate income taxes, capital gains taxes and all other charges, including import duties.

JAMAICA

Substantial Changes Expected

The newly elected Jamaican administration of Prime Minister Michael Manley is expected to make substantial changes in Jamaican tax rates and the types of taxes imposed when the new budget is announced in mid-1972.

Real Estate Transfer Tax

The Transfer Tax Act 1971 now imposes a 2½% tax on most transfers of Jamaican real estate, but only if there is a capital gain.

Incentive Laws

The Resort Cottages (Incentives) Act 1971 provides a seven-year tax exemption for owners, tenants and operators of resort cottages intended for transients and tourists.

MONTSERRAT

Double Tax Agreement

It has been reported that the Montserrat Government and the British Government have discussed possible amendments to the existing double tax agreement between Montserrat and the United Kingdom, but the details of any proposed changes have not been made public.

ST. VINCENT

Tax Haven Potential

A Vincentian mortgage company which finances local residential accommodations may now, by agreement with the Government, be exempt from income tax on its own earnings and on dividends and interest paid by it.

TRINIDAD AND TOBAGO

Double Tax Agreement Protocol

It has been reported that a supplementary protocol amending the 1967 double tax agreement between Trinidad and Tobago and the United Kingdom will be published later this year.

TURKS AND CAICOS

Incentive Laws

The Turks and Caicos State Council is considering a draft Encouragement of Development Ordinance. It would repeal the existing Hotels Aid Ordinance. An approved developer would receive guarantees against direct taxes as well as exemption from import duties on most items used to establish or expand a development enterprise.

U. S. VIRGIN ISLANDS

Tax Incentives

The Industrial Incentive Law reportedly expired in December 1970. A new one was passed by the U. S. Virgin Islands Legislature in January 1971, but was vetoed by the Governor. It has now been reported that the Attorney General of the U. S. Virgin Islands has ruled that the old law is once again in effect.

SOUTH AMERICA, PANAMA, CENTRAL AMERICA and MEXICO

ARGENTINA

Income Tax Amendments

The Executive Branch issued several laws and decrees on December 31, 1971 modifying various provisions of the Argentine tax code. Some of the more interesting changes follow:

- 1) A flat 33% tax is now applicable to the net earnings from Argentine sources of foreign firms and persons that have a fixed place of business in Argentina. The same rate applies to the earnings of mixed companies, i.e., those with private and governmental participation.

2) The general withholding rate on foreign remittances has been set at 41%. This rate does not apply to dividends or to the net earnings of foreigners with a fixed establishment in the country.

3) Withholding on dividends is now at 12% when paid to non-residents.

4) The 41% withholding rate has been made applicable to payments on bearer securities.

5) Deductions on account of payments of interest, royalties and other remittances abroad have been reduced from 50% to 20%. Unless other exemptions apply this measure will increase the cost of foreign borrowings.

6) The amount of non-taxable income and personal exemptions available to 4th category taxpayers has been increased.

7) Interest received from local bank accounts and savings institutions is now tax-free provided the institution be approved by the Central Bank.

Modifications of Incentive Legislation

Rentals from certain housing projects will be relieved from all national taxes for an 8 year period pursuant Law No. 19124 of 1971.

Pursuant to Law No. 19127 of 1971 interest on savings accounts and interest on loans made by employers to employees will be exempt from income tax.

Tax-free re-investment of profits until the end of 1972 remains available to mining and shipbuilding companies. Law No. 19131 of 1971.

The income tax benefit to Argentine automobile exporters and to exporters of auto parts has been increased to 50% of the F.O.B. value. In addition, a full foreign tax credit has been granted. Law No. 19135 of July 21, 1971. Also pursuant to Law No. 19184 of 1971, additional tax rebates and tax credits are available to other exporters of Argentine produced goods.

Pursuant to Law No. 19196 of 1971, gains from the sale of certain cattle will remain exempt from income tax. However, pursuant Law No. 19259 of 1971, the exemption will not apply to sales made on the farm.

Pursuant to Law No. 19246 of 1971, up to 75% of investments in Argentina-made machinery may be deducted from the taxable income of farmers and cattle raisers.

Income tax and customs duty benefits have been made available for the wine growing industry pursuant to Decree No. 4240 of 1971.

Taxation of Patents, Trademarks, etc.

Contracts between Argentina and foreign firms calling for the use of foreign patents, trade names or designs in Argentina, or for the use and furnishing of technical assistance and know-how must be registered with the local authorities; otherwise, foreign remittances may not be made pursuant to such contracts. The contract must conform to the guidelines set forth in the new law. In addition, new investments of foreign capital consisting of intangibles, must conform to the standards set forth in the new law. Law No. 19231 of October 9, 1971.

Regulation of Foreign Investments

New foreign investments must follow the guidelines set forth in Law No. 19151 of 1971. Although foreign investments authorized by the Executive will enjoy the same rights as are extended to local capital, preference will be given to projects with mixed foreign and local capital.

Stamp Tax on Foreign Loans

The Tax Court has held that the Argentine stamp tax has to be paid on a loan obtained abroad even if the proceeds are utilized abroad because the loan was entered on the company's books of account in Argentina. Reported in *Derecho Fiscal* No. 241 of 1971.

BRAZIL

Promotion of Tourist Facilities

Hotel projects approved prior to the close of 1975 may qualify for a complete 10 year tax exemption. Hotels in operation as of November, 1966 may qualify for a 50% exemption. Decree Law No. 1191 of October 27, 1971 also provides for tax free re-investment of profits by individuals in approved hotel projects, and also provides for limited tax-free re-investment of profits by legal entities in hotel projects.

Promotion of Exports

It has been previously reported that Brazilian exporters enjoy certain duty exemptions with regard to machinery imported to produce their export goods. This and other export incentives have been further regulated

pursuant to Decree Law No. 1189 and regulations issued thereunder on September 24, 1971.

Taxation of Travelling Expenses

The Tax Office has ruled that transporting a foreign technician to Brazil and back to his home country is deductible; whereas, transporting the technician to his home country while on vacation is not a deductible expense even if required by the contract of employment. Opinion rulings Nos. 581 and 582 of 1971.

CHILE

Taxation of Royalties

Royalties and fees related to the extraction and refining of oil and to copyrights on books and magazines will be entitled to a 20% deduction when paid to nonresidents of Chile. This is in connection with the calculation of the "additional" income tax and the withholding thereon. Decree No. 1806 of 1971.

Taxation of Bank Loans

The surcharge on the tax on bank loans made to local branches of foreign companies or to their local subsidiaries has been set at 36.51% for the period November, 1971 — January, 1972. Decree No. 1891 of 1971. The normal tax rate for the same period is 40% and the surcharge is calculated on the amount of tax on the interest of such loans.

COLOMBIA

Taxation of Income Paid to a Foreign Affiliate

The Council of State has ruled that income items that are not deductible by a Colombian company when paid to its foreign parent company, may not be taxed to the recipient so as to avoid double taxation of the same income.

Income of Non-Domiciled Companies

The National Tax Bureau has issued a circular authorizing its personnel to determine the taxable income of foreign companies not established in Colombia. Pursuant to decision of the Council of State rendered November 4, 1971, the circular has been declared null and void.

COSTA RICA

Significant Income Tax Changes

We have received the text of Tax Reform Law #4961, issued March 10, 1972. The following are some of the more important amendments to Costa Rica's income tax law:

(a) Tax rates have been modified so that there are now two progressive rate schedules; one applicable to resident individuals and the other applicable to corporations and other legal entities including trusts. The maximum individual rate is now 50% on amounts in excess of *colones* 350,000. The corporate tax rates range between 5% and 40%, with the 40% bracket applicable to corporate earnings in excess of one million *colones*.

(b) Under the following circumstances, it is now required that local corporations file one joint tax return, generally causing a higher tax as a result of their combined incomes:

(i) when such corporations carry out activities or businesses that are similar or complementary to each other, *and*

(ii) when 51% or more of the capital of each such corporation is owned or controlled by a common group of persons or entities.

Prior to this amendment it was common practice to divide business income amongst two or more separate entities so that the applicable tax would be calculated at the lowest corporate rates. It will be interesting to see how this provision is implemented because it has perhaps purposefully been left vague with regard to defining which activities are similar or complementary and what constitutes common 51% ownership.

(c) Dividends are now taxable except with regard to share dividends and dividends on account of nominative shares held by another Costa Rican corporation. When paid to individual residents of Costa Rica, a 5% withholding tax is applicable, both with regard to nominative and bearer shares. A Costa Rican corporation receiving dividends on account of bearer shares will have a tax credit for the 5% withheld. Prior to the amendment dividends were not taxed at all. It is not clear whether dividends on account of foreign source earnings would be taxable since Costa Rica purports to tax only Costa Rican source income.

(d) Withholding taxes on remittances abroad are now as follows:

(i) A number of items are subject to a 20% withholding tax including salaries, fees, commissions and other payments to persons who are members of boards of directors, advisory boards and other managerial bodies that meet and act abroad; fees and payments on account of financial, technical, administrative or other assistance rendered from abroad; and royalties and franchise fees on the use of patents, formulas, trademarks and rights.

(ii) A 15% withholding tax is now applicable to dividends or profit distributions paid on account of foreign capital invested in the country; included in this category are payments by a local branch office to its foreign head office. This tax is not applicable to payment of share dividends.

The withholding tax on dividends and profit distributions may be waived when the recipient is not entitled to a tax credit under the laws of his country, provided his country or jurisdiction generally tax such income in a manner similar to the tax now imposed under Costa Rican law. The foregoing sentence is not a literal translation of the amendment and extreme caution should be observed in any efforts tending to qualify for the waiver of the withholding tax on dividends and profit distributions. The amendment apparently intends to exclude the use of tax havens as a means of qualifying for the waiver.

(iii) A 10% withholding tax is applicable to interest and commission payments remitted on account of foreign loans. Withholding is not required when the loan is contracted and executed abroad by industrial or agricultural firms that use the loan proceeds in the ordinary course of their business, provided that the lender is a foreign bank or foreign financial institution that has been duly recognized by the Costa Rican Central Bank. Withholding is also not applicable to loans to a governmentally owned bank.

The 10% withholding is also applicable to payments on account of the use in Costa Rica of foreign motion pictures, television tapes, and other similar items.

(e) Salaries, fees, commissions, and other income paid to directors and members of other managerial bodies acting abroad

as well as fees paid for financial, technical and administrative services rendered abroad, are now deductible against the income of the payor.

Law No. 4961 has increased the sales tax to 5% and also enacted an excise tax on non-essential consumer products including imports. The Executive branch has been authorized to prepare a list of items that will be subject to the excise tax with a maximum rate of 50% of the CIF value on imported goods or on the cash value of locally produced goods.

DOMINICAN REPUBLIC

New Tax on Capital Gains

Law No. 291 was issued on March 29, 1972 for the sole purpose of taxing capital gains realized on the sale or transfer of real estate located in the country. The tax applies to all taxpayers, whether individuals or companies and whether resident or nonresident.

Authorized deductions from the sales price include cost of purchase, cost of additions, transfer tax applicable to the purchase, interest paid on construction loans, and fees and commissions.

Percentage deductions are also allowed depending on the number of years of ownership. The percentage deduction ranges from 5% when owned less than 2 years, to 20% when owned over 10 years.

The rate of tax is 20% when the seller is a resident and 30% when nonresident. The seller is obligated to pay the tax but a detailed system is established whereby the purchaser pays the estimated tax directly to the tax authorities. Failure on purchaser's part to make such payment subjects him to a 5% penalty. No legalization of signatures or recordation of documents may be made until the payment has been made.

The law is one of the best drafted on this subject in the Americas.

Promotion of Mortgage Banks

Tax incentives are now available to investors in locally constituted mortgage banks whose object is to finance the local construction industry. Investors will enjoy a 50% profits tax exemption for a 10 year period, dating from the formation of the bank. Individuals and entities may deduct the amounts thus invested from their taxable income, subject to certain conditions. Law No. 171 of June 7, 1971.

Promotion of Tourist Facilities

Law No. 153 of 1971 grants total income tax and duty exemption to investments in new tourist facilities or expansion of existing tourist facilities.

ECUADOR*Income Tax Code*

A complete text of Ecuador's Income Tax Law and Regulations has been issued and has been available since late September, 1971.

New Petroleum Law

A revised petroleum law became effective October 1, 1971. All oil deposits belong to the government which is granted the authority to enter into association contracts with private oil firms. Upon the termination of the contract, all assets used by the exploration or drilling company revert to the government. Reference prices will be established by agreement between the government and the oil companies to serve as the basis for determining royalties, income tax and other taxes. Extractive royalties will range between 12.5% and 16%. The law is not retroactive, but seeks to encourage existing concessionaires to convert their contracts into association agreements. Supreme Decree No. 1459 of September 27, 1971.

Pursuant to Order No. 375 of 1971, the Ministry of Finance ordered oil companies to pay the income and additional taxes in dollars.

Promotion of Farming and Forestry

Additional incentives are now available for farming, cattle raising and forestry pursuant to Supreme Decree No. 962 of 1971. Qualifying businesses will be entitled to an 80% exemption from import duty on machinery, tractors and veterinarian products that are not produced within the country. Complete customs duty exemption is available for special equipment used in farming and cattle raising. Real property tax exemption is granted to forest land provided that it is re-forested. The rules relating to the presumptive income of farmers that do not keep accounting books are also relaxed pursuant to the Decree.

Tax Credit Certificates

The use of tax credit certificates issued pursuant to industrial incentive and export incentive legislation has been regulated pursuant to Order No. 398 of October 18, 1971.

EL SALVADOR

Common Market Treaty Incentives

The Central American Common Market Treaty on Tax Incentives for Industrial Development has been made applicable to new industrial projects in El Salvador pursuant to Executive Decree No. 47 of 1971. The treaty provisions replace the national incentive laws.

Income Tax Procedural Reform

Decree Law No. 458 of December 8, 1971 requires that tax returns be presented during the first quarter, depending upon the type of taxpayer and his fiscal period which will be established by the General Directorate of Direct Taxes. Other procedural provisions relate to the statute of limitations and to appellate procedures.

GUATEMALA

Common Market Treaty Incentives

Guatemala has also adopted the Common Market Treaty on Tax Incentives for Industrial Development and the uniform rules for qualification thereunder. Ministry of Economy Order of September 8, 1971.

Agricultural Incentives

Firms and persons engaged in the rabbit raising business will be entitled to certain income and customs duty exemptions pursuant to legislative Decree No. 89-71 of November 8, 1971.

HONDURAS

Amendments to Industrial Incentives Legislation

Pursuant to legislative decree enacted at the close of 1971, Honduras now grants qualifying companies exemption from customs duties during the first three years of operation and thereafter a 30% to 100% exemption will be applicable in accordance with the industrial classification. Qualifying companies will pay only 50% of the normal income tax rates. The tax exemption on petroleum by-products is now 50%. This amendment applies both to Honduras Industrial Promotion Law and to the Central American Fiscal Treaty for Industrial Development, and provision is made for re-establishing the exemptions previously offered pursuant to the Com-

mon Market Treaty for those companies doing business in the Central American common market.

MEXICO

Income Tax Changes

Our correspondents in Mexico City, Messrs. Hidalgo, Barrera, Siqueiros y Torres Landa have forwarded the following synopsis of Federal income tax changes enacted by Congress during the period December 29-31, 1971. These new provisions entered into effect January 1, 1972. The principal modifications and additions to the Federal income tax law are as follows:

1. — *Gain on sales of securities.* The tax on profit resulting from the purchase or sale of *valores mobiliarios* (securities, shares and fixed income obligations issued by joint stock corporations) is broadened to include individuals (Article 30). The Federal Revenue Law for 1972 does not include the exemption for individuals which was included in the similar 1971 enactment.

The earnings in question which are obtained by companies must be included with other income (Article 19, Section I), except those companies which are authorized by the Ministry of Finance to carry out activities which promote industrial development in accordance with the general guidelines which will be established by the Executive Branch of the government (Article 19, Section II).

With regard to individuals, they do not have to include the income in question with their other income since the tax is levied on each operation effected, as provided for in the first paragraph of Article 30. Income shall be exempt from operations carried out in one of the Mexican stock markets.

2. — *Increase of tax rates for individual taxpayers.* The Law increases the amount of taxes payable by individuals fixing the maximum rate at 42% rather than 35% for amounts in excess of \$300,000.00 Mex. Cy., in addition to increasing the tax rates for lesser amounts. For example, article 56 as amended, provides in the corresponding table that monthly income from \$5,000.01 Mex. Cy. to \$10,000.00 shall be subject to a tax rate of 16.65% rather than 16.64%. With regard to the tax table set forth in Article 75, the rates for annual income exceeding \$120,000.00 Mex. Cy. are modified so that such income is subject to progressive rates beginning at 23.49% rather than 22.92%. And new tax rates were added to the

Article 86 tax table for income exceeding \$300,000.00 Mex. Cy. which is taxed at 36% to 42%. Articles 56, 75 and 86 provide for a formula for income exceeding the last amount indicated in the tax table, whereby the maximum rate of 42% as a matter of fact is not applied on amounts less than \$1,500,000.00 Mex. Cy. but instead, a reduction on the total amount of the tax is allowed.

3. — *Major and small taxpayers.* The tax system applied to major and small taxpayers (Article 17) is modified so that small taxpayers shall include those individuals who have accumulable income for amounts not exceeding \$500,000.00 Mex. Cy. and not \$150,000.00 Mex. Cy. as was established before. As a consequence those individuals who are considered major taxpayers shall be subject to the obligations established by the Income Tax Law such as the preparation of an annual balance sheet, etc.

4. — *Tax on dividends and undistributed profits.* The Income Tax Law once again reverts to the previous practice of levying a tax on dividends (15% for amounts up to \$180,000.00 Mex. Cy.; 17-½% on amounts of \$180,000.01 to \$270,000.00 Mex. Cy., and 20% on amounts of more than \$270,000.00 Mex. Cy.) which are in fact a distribution of the earnings to the partners or shareholders (Articles 60, Section V, 73 and 74).

The previous legal provision levied a tax on undistributed profits, that is, on those earnings that the company could have distributed but as a matter of fact were not. The previous system shall continue to be followed for branches and agencies of foreign companies, as the modification of Articles 60, 73 and 74 does not affect them.

On the other hand, (Transitory Article 6) of the New Law annuls the previous legal provision (Article 73, Section I, sub-paragraph c) so that with regard to the companies whose fiscal year is subject to the 1971 Law, the dividend tax shall only be levied on the earnings which in fact were distributed and not merely on undistributed profits.

In addition, Article 73, Section IV empowers the Ministry of Finance to determine the tax base for distributed income and levy the corresponding tax as explained in paragraph one of this Section of the Memorandum, in the following cases:

a) When the corporate income tax of the enterprise is determined on estimated basis.

b) On the amounts which the company pays to its partners or shareholders as loans, when there are undistributed profits or capitalized

profits except when said loans are normally granted in accordance with the operation of the enterprise and fulfill the following requirements:

- i) That the loans are payable in a fixed period of time not to exceed one year and that at least 10% interest is payable on the loan;
 - ii) That the partners or shareholders do not breach the terms of the loan agreements so far as repayment of the capital and payment of the interest is concerned; and
 - iii) That the amount loaned to an individual or the total amount made available for loans does not exceed 10% of the paid in capital.
- c) For capitalized earnings or accumulated earnings for which the corresponding dividend tax has not been paid in the case of a reduction of capital of the company (not considering as distributed earnings an amount in excess of the amount of undistributed profits).
- d) Amounts which imply a benefit for the partners or shareholders which can not be considered normal and proper expenditures for purchases which are not carried out and which are improperly included in the company's accounting and other omissions of reporting of income which would increase the corporate income tax.

5. — *Royalties and fees payable from abroad.* The Law permits Mexican enterprises who render technical services abroad or collect royalties from abroad to exclude such income from their normal income tax reporting. A tax of 10% is levied on this income (Article 19, Section V, as related to Article 31, Section IV and Article 41, Section II).

6. — *Promotion of industrial development.* New tax benefits are granted to companies which locate in regions which are subject to development or which promote industrial development, the foregoing subject to approval by the Ministry of Finance, in the following cases:

- a) A tax is not levied on the income obtained from the sale of real property which is included as fixed assets of the company (Article 19, Section VI).
- b) Likewise, no tax is levied on the profits resulting from the sale of shares of stock (Article 19, Section VII).
- c) The provisions for accelerated depreciation are broadened (Article 21, Section IV), so that such treatment is not limited to certain enterprises, or require that investments be made only in machinery and equipment, but that the geographical region where the enterprise is

established and the activity of the enterprise will be taken into consideration. Authorizations will be subject to previous approval of the Ministry of Finance who may dictate general guidelines or, as the case may be, a specific resolution indicating the regions, industry and activity and those assets which will be subject to the provisions for accelerated depreciation.

7.—*Accelerated depreciation.*— Some rates of depreciation for tangible fixed assets are greatly increased (Article 21, Section I). These are set out below.

<i>Depreciable Property</i>	<i>1972</i>	<i>1971</i>
Machinery and equipment for the construction industry	20	10
Molds, dies and tools	35	10
Equipment to be used for the prevention and control of pollution	35	10

8.—*Interest income of foreign institutions.*— With regard to "Foreign institutions" (banks, etc.,) they are required to register with the Ministry of Finance on or before May 31, 1972 to obtain special flat rate of 10% tax on interest income from loans made by them (Article 31, Section I, sub-paragraph e), as related to Article 41, Section II) and not subject to the 20% rate (provided for in Article 31, Section I, sub-paragraph f) and Article 41, Section I), or the progressive income tax table (Article 31, Section I, sub-paragraph g) and (Article 41, Section IV).

When the lender is an individual domiciled abroad, a 20% tax rate will be applied if in the judgment of the Ministry of Finance such loan is to be used for purposes of general interest, otherwise the progressive tax schedule set forth in Article 75 is applied. The borrower remains obligated to withhold the corresponding tax which as a minimum will be 20%.

9.—*Income tax from personal services.* Payments made for premiums for work on Sunday, vacations, seniority, compensation for the delay in the delivery of housing, different payments and any other consideration which is paid as a consequence for rescission or termination of labor contracts, are expressly subjected to the tax on income from personal services.

10.—*Medical practitioners.* Likewise, with regard to the tax on income from personal services, the new law in an attempt to collect the corresponding taxes from doctors who practice independently, provides that they should not cancel tax stamps on the corresponding receipts but must make three provisional payments in the months of May, September

and January amounting to 4% of their total income in the four preceding months.

11. — *Taxes on interest paid by Mexican banks.* Tax rates are increased on interest paid on bonds, debentures, real estate certificates of participation which may be amortized (real estate certificates of participation which are not amortized are subject to the same fiscal treatment as before) issued by Mexican banking institutions, likewise, bank acceptances, loans and other credits payable by banking institutions or auxiliary organizations (stock markets, bonded warehouses, credit unions, etc.). (Article 60, Section II and Article 67).

The tax levied on interest income must be paid in accordance with the following schedule:

Annual rate of return earned on the transaction or on the negotiable instrument based on par value:

Rate Applicable

If the rate of interest does not exceed 7.0% simple interest or 7.2% compound interest	Exempt
If the rate of interest exceeds the percentages referred to above but is no greater than 8%	6%
If the rate of interest exceeds 8%, but does not exceed 9%	12%
If the rate of interest exceeds 9% but does not exceed 10.6%	15%
If the rate of interest exceeds 10.6%	20%

The law provides that the corresponding tax may be reduced as much as necessary:

a) So that the net earnings on the transaction or negotiable instrument is not less than 7% simple interest or in the case of compound interest 7.2%.

b) So that the net earnings from the transaction or negotiable instrument will never be less than the maximum rate of net interest payable in the immediately preceding tax rate.

12. — *Inclusion of interests and dividends in annual income tax returns.* In addition, the Law authorizes the taxpayer, at his option, to include the income with other income rather than pay the taxes on a flat rate as established in Articles 67 and 74, respectively, for interest income and dividends (Articles 67 and 74). If in either case the taxpayer decides not to include the income, the corresponding tax will be considered fully paid as a result of proper withholding.

13. — *Exemptions and deductions.* Personal exemptions were increased for the corresponding calendar year (Article 81); likewise, the deductions which may be taken after the proper exclusions are made from the income (Article 82), in the following cases:

Personal exemptions:

- a) \$9,000.00 rather than \$6,000.00 Mex.Cy. for each taxpayer.
- b) \$6,000.00 for the spouse, rather than \$3,000.00 Mex.Cy.
- c) \$3,000.00 Mex.Cy. for each descendant or parent economically dependent on the taxpayer, rather than \$1,500.00 Mex.Cy.

Deductions:

a) Medical and dental fees; hospital and funeral expenses (of the taxpayer or his spouse or his descendants or parents), notwithstanding the fact that some other institution or enterprise may be obligated to reimburse the taxpayer for these expenses (subject to the provision in Article 83, Section III, which provides that if the taxpayer recovers part of these expenses, he may only deduct the difference which was not recovered).

b) Insurance premiums up to \$10,000.00 Mex.Cy. annually paid for life insurance on the life of the taxpayer, and accident insurance for him and for those persons who may be claimed as exemptions.

c) The deduction is maintained for dues paid to mutual companies, life insurance on the members of the mutual companies and premiums paid for health insurance.

In addition, a deduction is authorized for casualty insurance covering any of the taxpayer's properties.

On the other hand, Article 84 of the law which provided that individuals who did not choose to take deductions authorized in Article 82 had the option to deduct the amount of 10% on the balance mentioned

in the first paragraph of said Article 82 or the amount of \$20,000.00 Mex.Cy. whichever was the lesser amount was repealed.

Likewise, Article 87, in its next to the last paragraph, establishes a new obligation for taxpayers who deduct medical and dental fees, hospital and funeral expenses, of accumulating all taxable income in their tax returns which they receive for services and income resulting from capital invested (income received from the sale of securities is not included), with the exception of the income derived from (i) income received for seniority, retirement or severance pay; (ii) the sale of urban real estate; (iii) rental of urban real estate, when the monthly rent does not exceed \$700.00 Mex.Cy. (when the rent does exceed \$700.00 Mex.Cy. it must be included with all of the income after having made certain deductions which are provided for in Article 72).

14. — *Sales of real estate.* — The tax provisions remain unchanged for income derived from the sale of urban real estate (Article 60, Section III, Article 70 and Article 80, Section II), to wit:

<i>When the time between the acquisition and the sale is:</i>	<i>The following per- centage is applied on the profit:</i>
Up to 2 years	80%
More than 2 years and up to 4 years	70%
More than 4 years and up to 6 years	60%
More than 6 years and up to 8 years	40%
More than 8 years and up to 10 years	20%
More than 10 years	Exempt

The new measures referred to earlier in this Article also enacted modifications to the Revenue Law for the Federal District and to the Federal Gross Receipts Sales Tax Law.

NICARAGUA

Taxation of Foreign Loans

Whereas both the capital of foreign loans and the interest thereon have been subject in certain instances to Nicaraguan tax, an Executive Decree now exempts both the principal and interest of certain foreign loans from payment of the tax on capital and the income tax on interest. Executive Decree No. 16 of May 10, 1971. Executive Decree No. 209 of

Oct. 6, 1971 also provides exemptions on foreign loans but only with regard to interest payments.

PARAGUAY

Taxpayers' Registry

Most taxpayers are now required to register with the tax office where they will be assigned a tax number. This system, effective since January 1, 1972, was established pursuant to Decree No. 20147 of 1971.

URUGUAY

Promotion of Fisheries

Effective December, 1971, the law for the promotion of fisheries has been regulated and tax exemptions established by the law are to run from the date of issuance of the regulations. Decree No. 711 of 1971.

Taxation of Interest Paid Abroad

The Executive Branch has construed the exemption from income tax on interest paid abroad for the purchasing of goods in such manner that the exemption applies exclusively to interest charged by the seller of the goods or by foreign financial institutions financing the sale. Decree No. 496 of August 10, 1971.

VENEZUELA

Taxation of Bank Deposits

Interest received from deposits made with local banks on a 90 day basis or longer will be exempt from income tax pursuant to Decree No. 761 of October 6, 1971.

Income Withholding Tax System

Pursuant to Decree 813 of December 9, 1971, Venezuela revised its withholding tax so that it is now applicable to all salaries, fees, commissions, expense accounts, travel allowances and similar payments. The amount of withholding varies according to the level of the taxpayer's earnings. The tax is based on his variable as well as his fixed income. This revised system went into effect on February 1, 1972. Taxpayers must present monthly returns showing that at least 95% of the tax has been withheld. The added paperwork on the General Tax Office should prove substantial if not burdensome.